



Office of Internal Audit

Monthly Internal Control Tip

Develop the Risk Profile for your organization, department, agency, and/or area.

Use the risks identified during the Risk Identification Process, described in the [May Monthly Internal Control Tip](#), to begin the process for developing the Risk Profile. The Risk Profile is a snap shot of all known risks facing the organization, department, agency, and/or area at a given point in time. The Risk Profile also includes an assessment of the potential causes and the potential consequences (impact and likelihood) of each risk. The purpose of risk profiling is to ensure that key stakeholders (management, staff, and citizens) are fully aware of all known risks that may affect the organizational unit as well as how and why. Once the risk(s) have been identified, risk profiling consists of two key activities: assessing the potential cause of the risk(s) and assessing the potential consequences of the risk(s), based on impact and likelihood.

Key Activity 1: Assessing Potential Cause of Risk

It is imperative to determine the cause of the risk(s) affecting the organizational unit, in order to determine the likelihood of the risk as well as the optimal response to the risk. Methods to identify and assess the cause of the risk(s) include, but are not limited to the following:

Root Cause Analysis

- The “5-Whys Analysis”- This strategy involves looking at a problem and asking “why” and “what caused this problem”. Often the answer to the first “why” prompts a second “why” and so on—providing the basis for the “5-why” analysis.
- Change Analysis - Looks at risk in situations where change is occurring, including situations in which system configurations are changed, operating practices or policies are revised, new or different activities will be performed, etc.
- Fish-Bone Diagram- An analysis tool that looks at effects and the causes that create or contribute to those effects. Often called a cause-and-effect diagram, the design of the diagram looks much like the skeleton of a fish—hence the designation “fishbone” diagram.

Key Activity 2: Assessing Potential Consequence of Risk

Assessing the potential consequences of the risk(s) is possibly the most important activity in risk profiling, as the consequence of the risk(s) is a key factor in determining how management will respond to the risk(s). The consequence associated with a given risk is assessed based on the impact of the risk as well as the likelihood of occurrence. Impact is a measurement of the effect of the risk on the organizational unit. Likelihood is a measurement of how probable it is that the risk will occur. An assessment of risk (consequence) must consider both impact and likelihood. For instance a risk may potentially have a catastrophic impact, but that risk may be extremely unlikely to ever occur. Impact and likelihood are assessed, first independently of one another and then jointly. The risk(s) are then ranked based on the joint assessment of both likelihood and impact. Next month’s Internal Control Tip will further examine Risk Profiling regarding methods of assessing, evaluating, and ranking the risk(s).